It'd Be a Mistake Not to Buy Canadian National Railway Company

Description

There are plenty of amazing companies out there that, but because of how the markets have been behaving, are overvalued. But every once in a while, one of these amazing companies experiences a significant correction that puts it into "buy me now" territory, where it would be a mistake to miss it.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is currently in this territory. Because of the recent Amtrak accident in Philadelphia, investors are concerned that there will be increased regulations put on railroads to prevent derailments, which could cause a drop in profits.

While I agree that these regulations could hurt the railroads some, there are too many reasons that Canadian National is an amazing company to consider avoiding it.

Its Q1 2015 results were really strong, supporting my argument. Year over year, the company saw revenue grow 15%. On top of that, the company saw a 30% year-over-year increase in profits. When there were concerns about whether or not the railroads could be profitable due to oil prices, Canadian National dominated in the first quarter.

Other than coal, the company saw tremendous increases in all types of shipments. Petroleum and chemicals increased 14%, forest products jumped by 23%, and grain and fertilizers increased by 24%.

On top of all of this, the company is a dividend-paying juggernaut, and based on its current payout ratio of under 35%, it has quite a bit of room to continue growing that in the coming years. I get concerned about a company's ability to grow its dividend when that ratio is in the 50s or 60s. But by being under 35%, I have faith that Canadian National will continue to reward investors for years to come.

But let me tell you the single most important reason that you should consider adding Canadian National Railway to your portfolio, and it has nothing to do with fundamentals, dividends, regulations, or where the price is right now. Even if the price hadn't had a 15% drop, I would still recommend that you buy this company.

The reason I think you should buy it is because of its moat. The wider the moat, the harder it is for a new company to come in and launch a competitor. Therefore, we want a bigger moat to ensure that a company is secure. Canadian National has a massive moat. It has acquired the land and laid the tracks for all the routes it travels for so many years. Trying to replicate that now would be virtually impossible and cost prohibitive.

This means that we don’t have to worry about someone else coming along to compete with Canadian National, which means it will be one of the few railroads that gets all of the shipping business. So, as long as that is the case, it will continue generating plenty of revenue, which will allow it to continue raising its dividend.

Don’t miss out on this opportunity to buy Canadian National Railway Company. It’s an amazing piece to add to your portfolio.

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1. Editor's Choice

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